STATE OF IOWA

DEPARTMENT OF COMMERCE

UTILITIES BOARD

IN RE: MIDAMERICAN ENERGY COMPANY	DOCKET NO. RPU-03-1

ORDER SUSPENDING HEARING AND REQUIRING ADDITIONAL INFORMATION

(Issued August 28, 2003)

On May 27, 2003, MidAmerican Energy Company (MidAmerican) filed with the Utilities Board (Board) an application for determination of ratemaking principles pertaining to a proposed 310-megawatt (MW) wind-powered generation project. Revisions to the application were filed June 2, 2003. MidAmerican plans a project consisting of 173 to 207 wind turbine generators with a maximum nameplate generating capacity of 1.5 to 1.8 MW each. The wind generation will likely be installed at more than one location, with each location probably having 80 to 150 MW of capacity. The location or locations for the wind project have not been determined.

As part of its filing, MidAmerican submitted a stipulation and settlement signed by MidAmerican, the International Brotherhood of Electrical Workers State Conference, Deere & Company, Local 109, International Brotherhood of Electrical Workers, and the Consumer Advocate Division of the Department of Justice (Consumer Advocate). The other intervenor in the proceeding, Interstate Power and Light Company (IPL), filed a response indicating it had no objection to the settlement.

On July 28, 2003, MidAmerican filed a motion to cancel the evidentiary hearing scheduled for September 4, 2003. In reviewing the ratemaking principles application and settlement, the Board has numerous questions. However, many of the questions can best be answered in written form because they may require data or information that witnesses may not have readily available at hearing. Therefore, the Board will suspend the hearing and require MidAmerican to provide the information and respond to the questions below within ten days of the date of this order. After reviewing the responses, the Board will determine whether to reschedule the hearing or proceed to ruling on the merits of the application and settlement. One question, number 8, is for both MidAmerican and Consumer Advocate.

1. On page 10 of Witness Alexander's direct testimony, it is stated that MidAmerican will be capacity deficient for regulated load plus reserves starting in 2004, even after the addition of the first phase of Greater Des Moines Energy Center (GDMEC). What steps is MidAmerican taking to ensure that customer demand for electricity will be met in 2004?

2. In view of MidAmerican's capacity shortfalls and the intent of the Iowa legislature as expressed through HF 577 and HF 659 to encourage the construction of electric generation in Iowa, what planning process has MidAmerican instituted or enhanced to put generation resources in place to deal with its capacity shortfalls? How will this enhanced process favorably impact the timing associated with ratemaking principles hearings before the Iowa Utilities Board so as not to make each proceeding an emergency or expedited process?

3. Please describe the process used by MidAmerican in conducting long-term capacity (or expansion) planning. How are candidate supply-side resources identified and selected? What models are used to ascertain which are the lowest cost resources for installation? How are demand-side resources considered in the long-term planning process? Describe the sensitivity analyses conducted.

4. What is MidAmerican's planning horizon?

5. What is the next unit after the wind energy project that MidAmerican has considered? Has the company analyzed the impact of this unit? How did the company analyze the impact of this unit?

6. Please explain why MidAmerican chose to compare the reasonableness of the wind project only against other renewable generation resources and not with conventional and renewable resources.

7. In testimony in previous ratemaking principles cases, the wind resource that was chosen as an alternative included supplemental purchases to firm up the resource and provide firm peak power. Why was that option, or the installation of back-up natural gas-fired capacity, not examined in conjunction with this ratemaking principles application? Wouldn't firming up the wind capacity at the time of system peak result in significantly higher levels of wholesale sales energy availability and revenue?

8. MidAmerican can be released from its rate freeze commitment if its pre-January 1, 2011, expenditures for <u>environmental compliance</u> requirements to reduce emissions at existing coal-fired generating plants exceed $325 million. Why does the settlement agreement single out expenditures for emissions reductions as a single-issue reason that MidAmerican may request an increase in rates, other than return on equity falling below 10 percent?

9. On page 11, lines 9-11 of his testimony in Docket Nos. SPU-02-21/23, TRANSLink witness Winter describes TRANSLink's plans to "make significant new capital expenditures dedicated to improving the system over the next several years--approximately $297 million in the first year, and similar amounts in subsequent years . . . ."

a. Discuss in detail the likely effect on MidAmerican's expenditures, both capital and O&M, if TRANSLink were to begin operations and make such expenditures.

b. Discuss how such MidAmerican expenditures to TRANSLink would likely affect MidAmerican's return on equity for Iowa-jurisdictional sales.

10. Given the August 14, 2003, outages in the Eastern Interconnection, discuss in the context of a rate freeze extension any concerns MidAmerican has other than those already expected and described in the TRANSLink filing.

11. Given the Board's recent rule making on electric distribution reliability and its current investigation into aging transmission and distribution infrastructure, discuss in the context of a rate freeze extension any concerns MidAmerican might have regarding the potential for increases in reliability-related electric distribution or transmission expenditures prior to January 1, 2011.

12. Given the pending energy legislation in Congress, discuss in the context of a rate freeze extension any concerns MidAmerican might have that the

legislation that emerges from the House-Senate Conference Committee may cause MidAmerican to make significantly increased expenditures—other than expenditures (i.e., emissions) that may already have been discussed in response to another question above.

13. Wind projects generally rely upon three years of data prior to project siting and design. It appears that MidAmerican has not yet begun data acquisition at several of the possible wind sites. How will it be possible for MidAmerican to have sited and designed and built wind facilities and have them installed by 2007 without the requisite three years of wind data? And how can the design, construction, and transmission costs be estimated if the locations, sizes, and wind availability are not known at this time?

14. Please explain how MidAmerican arrived at the cost cap of $323 million for the wind plant when it has no site or sites, has not selected the size and number of wind machines, and has not selected a wind machine vendor or project developer. Please provide the same level of detail in the explanation that was used by MidAmerican in arriving at the cost cap number.

15. Is there a contingency cost in the cost cap and, if so, what is this cost and what is the basis for such contingency?

16. Is the cost cap based on 2003 dollars? If not, what basis was used to arrive at the cost cap of $323 million?

17. How was MidAmerican able to arrive at a cost cap of $12 million for transmission when it lacks any information as to the location, size, and configuration of the required transmission line or lines due to the undefined location and size of the wind machines?

18. Has the cost of alleviating any new transmission congestion due to the installation of wind generators been included in the cost cap? If not, and assuming at least some of the project will be in northwest Iowa, how does MidAmerican propose to alleviate this congestion? What impact will alleviation of this congestion have on Iowa ratepayers?

19. Does the transmission cost cap include a contingency and, if so, what is this cost and the basis for it?

20. Is the transmission cost cap in 2003 dollars? If not, what basis was used to arrive at the cost cap of $12 million?

21. Witness Guyer states in his testimony that wind projects have minimal environmental impacts. Has MidAmerican investigated environmental concerns

associated with wind projects in Iowa? How might mitigating the costs of these environmental concerns impact the proposed cost cap for the wind project?

22. What is the shortest possible depreciable life of the wind project that would not result in a rate increase to Iowa ratepayers?

23. How many wind machine vendors has MidAmerican surveyed to arrive at the requested depreciable life? What are the results of the survey, i.e., the maximum and minimum expected life and the average life of wind machines of the size contemplated by MidAmerican?

24. Has MidAmerican surveyed other owners of wind machines of the size contemplated by MidAmerican as to their thoughts on depreciable life? If so, how many owners and what are the results of the survey?

25. On page 5, lines 13-14 of his direct testimony, Dr. Vander Weide states his belief that the risk associated with the investment in the Wind Project is somewhat greater than the risk associated with an investment in MidAmerican as a whole. How would the risk of this wind generation project compare to that of a coal-fired generation plant? How would it compare to gas-fired generation?

26. This is the fourth generation plant to come before this Board for advanced determination of ratemaking principles in the recent past. Does it deserve the same public incentives to implement the intent of Iowa Code § 476.53 as were given to the earlier three plants (MidAmerican’s Greater Des Moines Energy Center, Council Bluffs Energy Center 4, and IPL’s Power Iowa Energy Center)?

27. The Board in Docket No. RPU-01-9 (MidAmerican’s Greater Des Moines Energy Center) set the return on equity at the top of its risk premium range using the 12-month average on A-rated utility bond yields. Give that the 12-month average on A-rated utility bond yields has fallen from 7.73 percent in that docket to 6.92 percent using Mergent Bond Record’s data from July 2002 through June 2003, why should the allowed return on equity for this project not fall accordingly from the 12.23 percent granted on Greater Des Moines Energy Center and Interstate’s Power Iowa Energy Center?

28. Is it MidAmerican's understanding that a viable market currently exists for renewable energy credits? Does any kind of market currently exist in the U.S. for renewable energy credits?

29 Is it MidAmerican's understanding that a viable market currently exist for CO_2 credits? Does any kind of market currently exist in the U.S. for CO_2 credits?

30. Given the very embryonic state of the markets for renewable energy and CO_2 credits, how did MidAmerican determine that revenues of $2 million a year could be anticipated from one or the other for the wind project?

31. What is MidAmerican's opinion of the likelihood that the federal production tax credit will be included as part of the energy bill or some other bill that will be passed by the U.S. Congress this year?

32. What about other incentives or credits that may be available during the life of the project, e.g., the legislation in Iowa or grants from the Iowa Energy Center. How would these be treated?

33. Many utilities across the country offer “green power” pricing whereby customers agree to pay a premium for power produced by facilities such as MidAmerican’s proposed wind project. Has MidAmerican considered other possible revenue sources to enhance the economics of its proposed wind project, such as “green power” pricing?

34. Is it correct that the wind project is capable of providing 53 MW of accredited capacity in the power pool with which to make wholesale sales?

35. Is it correct that a wind project installed with back-up natural gas-fired capacity for the full 310 MW would count as 310 MW of accredited capacity with which to make wholesale sales?

36. Would the economic benefit of wholesale energy sales from a conventional 310 MW resource surpass the amount of energy available from the wind project? How much more wholesale sales revenue would MidAmerican expect a conventional unit to produce in comparison to the wind project?

37. Settlement Article II, Term “3g” applies revenue sharing to AFUDC and accelerated depreciation for MidAmerican’s generation projects, including the wind project. Could revenue sharing be applied to wind project costs if the wind project was cancelled for reasons cited in Article VIII, “2a” or “2b”? If so, would it be applied as an offset to AFUDC, or as accelerated depreciation of plant costs?

38. Could revenue sharing be applied to wind project costs if the wind project was cancelled for the reason cited in Article VIII, “3b”? If so, would it be applied as an offset to AFUDC, or as accelerated depreciation of plant costs?

39. If the wind project was cancelled for the reason cited in Article VIII, “3b,” would all plant costs be recorded “below-the-line” or only that portion specifically related to canceling the plant? If only a portion of cancelled plant costs were recorded “below-the-line,” would the remaining costs be classified as AFUDC or as plant investment subject to depreciation?

40. The last sentence of Settlement Article II, Term “3g,” states:

> The interest on the amount accrued in the interest bearing account **<u>AND</u>** used to accelerate depreciation on the CB 4 investment will be determined based on the monthly average U.S. Treasury 3-year constant maturities rate as reported by the Federal Reserve Board Statistical Release H. 15 and shall accrue on the average monthly balance in the account. (Emphasis added.)

How will interest be determined for other amounts in the interest bearing account, i.e., amounts used for purposes other than accelerating depreciation on the CB 4 investment (such as AFUDC offsets or customer refunds)?

41. Settlement Article II, Term “3h,” refers to Settlement Appendix 3 for the methodology for calculating Iowa jurisdictional return on equity (ROE) used in revenue sharing. Some of the jurisdictional allocation methods in Appendix 3, Attachment 2 are different from the jurisdictional allocation methods originally approved in Docket No. APP-96-1. All other things being equal, what is the expected impact of these changes on calculated ROE for revenue sharing purposes? Hypothetically, what would have been the net impact of these changes on the 17.05 percent Iowa jurisdictional ROE in MidAmerican’s most recent revenue sharing report, filed January 31, 2003 (Docket Nos. RPU-01-3 and RPU-01-5)?

42. What is the “Two Factor” jurisdictional allocation method (Settlement Appendix 3, Attachment 2, p. 2)?

43. Settlement Article II, Term "3i," states that MidAmerican will not seek to increase rates before 2011 unless its Iowa jurisdictional ROE falls below 10 percent. Hypothetically, what would have been the net impact of the wind project on the 17.05 percent Iowa jurisdictional ROE in MidAmerican’s most recent revenue sharing report, filed January 31, 2003 (Docket Nos. RPU-01-3 and RPU-01-5)? What would have been the net impact assuming no revenues from renewable energy credits or CO_2 credits?

44. Settlement Article II, Term "3k," states that the settlement signatories will neither commence nor support a rate reduction proceeding against MidAmerican before 2011. Would this restrict the Board or any other party from initiating a rate reduction proceeding against MidAmerican?

45. Principle "h" of the Settlement appears to provide for shared equity returns if the return on equity exceeds 11.75 percent. If it turns out that returns are above 11.75 percent but below the 12.22 percent present in this settlement,

would MidAmerican seek to set aside enough revenue exempt from sharing to assure a realized 12.22 percent for the wind plant, or is the 12.22 percent only operative once MidAmerican files a rate case to set new rate levels? Is this also true for the Greater Des Moines Energy Center and Council Bluffs Energy Center 4 at their allowed returns on equity?

46. The environmental compliance investment principle states that MidAmerican has assumed the costs of compliance with environmental requirements to reduce emissions at existing coal-fired generating plants will be $214 million for capital improvements and $45 million for incremental O&M.

a. What is the basis for these estimated costs?

b. Assuming that different legislative outcomes would drive different levels of expenditures:

i. What specific "range of legislative outcomes" were considered when compiling these estimates?

ii. Provide the range of legislative outcomes, associated emissions control actions, and estimated costs.

c. What specific major emissions control investments would result in these estimated costs?

d. In establishing the $325 million cap, was the same general breakout of expenditures in the assumed cost levels (82.5 percent capital and 17.5 percent O&M) assumed?

47. If MidAmerican was authorized to cumulatively spend more than the $325 million in capital and O&M expenses prior to January 1, 2011, and no agreement was reached among the parties to the stipulation within 30 days, what form of request would MidAmerican make with the Board? In other words, does this ratemaking principle authorize MidAmerican to file a general rate increase, or would it be limited to the amount of the environmental costs in excess of $325 million?

48. Why did MidAmerican seek a principle that provides it a regulatory out on environmental compliance costs and investments at existing coal fired generating plants as part of the application for the wind project?

49. Explain why MidAmerican believes the preceding principle is relevant to the wind project. If the Board rejected this principle as irrelevant to this project, would MidAmerican proceed with constructing the wind project? If not, why not?

50. In this principle, MidAmerican states that the cost of environmental compliance through the end of the year 2010 will be $214 million for capital improvements and $45.5 for O&M (total $259.5 million); yet MidAmerican asks for possible relief should the Board issue an order or orders that authorize MidAmerican to spend more than $325 million in capital and O&M prior to January 1, 2011. Explain the difference of $65.5 million between the two figures.

51. Settlement Article II, Term "3m," allows for Board approval of revenue-neutral rate design changes to eliminate geographical zonal rate disparities. Is MidAmerican planning to file a revenue-neutral rate zone equalization case? If so, when? If not, how long would it take for MidAmerican to prepare a revenue-neutral rate zone equalization case?

IT IS THEREFORE ORDERED:

1. The hearing scheduled for September 4, 2003, is suspended.

2. MidAmerican shall provide the information identified in this order within ten days of the date of this order.

3. Consumer Advocate shall provide the information identified in question number 8 within ten days of the date of this order.

UTILITIES BOARD

/s/ Diane Munns

/s/ Mark O. Lambert

ATTEST:

/s/ Judi K. Cooper
Executive Secretary

/s/ Elliott Smith

Dated at Des Moines, Iowa, this 28th day of August, 2003.